LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7614 **NOTE PREPARED:** Jan 31, 2003
BILL NUMBER: HB 1696 **BILL AMENDED:**

SUBJECT: Health Facility Reimbursement and Bed Licensing Fee.

FIRST AUTHOR: Rep. Crawford **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: This bill requires the Office of Medicaid Policy and Planning (OMPP): (1) to use additional federal funds for the state Medicaid program received through intergovernmental transfers and other methods involving health facilities to supplement Medicaid reimbursement for health facilities; (2) to modify Medicaid reimbursement for health facilities to remove expenses for property taxes from the capital rate component and calculate the expenses in a new rate component; (3) to calculate administrative and professional liability components of the case-mix reimbursement as specified; (4) to recalculate, publish, and pay Medicaid reimbursements as specified; (5) to modify the Medicaid case-mix reimbursement system for health facilities and reimburse health facilities as specified; (6) to reimburse health facilities that elect to increase wages or benefits, and pay bonuses to certain personnel as specified; and (7) to amend and adopt specified administrative rules.

The bill establishes the Eldercare Trust Fund consisting of funds to be collected from health facilities as a bed licensing fee of $6 for each patient day in the health facility. The bill also requires the state's rate-setting contractor to: (1) use the most recent completed year when calculating medians and provider rates; (2) calculate the median for each rate component each quarter using all cost reports received by the state within a specified timeframe; and (3) include in the calculation of the administrative medians and the health facility's reimbursement rates the initial amount of the licensing fee paid by the health facility. It prohibits the Office from repealing or amending specified administrative rules. It also voids LSA Document #02-13(F) concerning Medicaid reimbursement of health facilities.

Effective Date: Upon passage; March 31, 2003 (retroactive).

Explanation of State Expenditures: *Summary:* This bill provides for a bed licensing fee of $6 per patient day. The net gain to the state Medicaid program from the $6 fee would be $69.5 M. The State Veterans' Home would incur additional expenses of approximately $600,000 as a result of the bed licensing fee. This bill provides for changes to the Medicaid case-mix reimbursement system used in determining reimbursement

rates for nursing facilities. Total additional expenditures to the Medicaid program are estimated to increase by $126.7 M annually. The state share of this amount would be $48.1 M annually from the state General Fund.

Background Information -

Impact on the State Veterans' Home: The Veterans' Home is licensed by the State Department of Health for 350 comprehensive care facility beds and 105 residential beds. The Veterans' Home would fall under the definition of facilities required to pay the general bed licensing fee. It is estimated that this would result in increased annual expenditures for the Veterans' Home of approximately $600,000 in state General Funds. The Veterans' Home is not a Medicaid-certified facility and would realize no refund of this expenditure under the rate provisions of the bill.

Rate-Setting Procedures: The bill contains provisions that change the procedures the rate-setting contractor uses when recalculating reimbursement rates. These procedures specify the nursing facility cost reports to use when establishing medians, specify the timing requirements when requesting additional information, and limits the use of draft audit reports in setting rates. Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates that if nursing home costs increase by 1% to 2% greater in the aggregate than the HCFA/SNF index, the annual additional expenditures paid to nursing facilities would be about $10 to $20 M. This would represent $3.8 M to $7.6 M in state share of expenditures.

The provision effectively alters the methodology for calculating reimbursement rates by basing the new rates on the most recently completed cost reports provided by nursing facilities, rather than on the prior year's cost reports. In either case, in the calculation of the new rates, the nursing facility cost data would be projected forward by the HCFA/SNF index, an index computed by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA). This is an index much like the Consumer Price Index, except that it measures the historical change in nursing facility costs instead of the costs of consumer items.

Generally, to the extent that the HCFA/SNF index is a good predictor of the allowable costs reported by Indiana nursing facilities, the impact of the change caused by this provision would be minimal. However, if actual Indiana costs rise faster than the nation's costs, as measured by HCFA/SNF, the calculated reimbursement rates to nursing facilities will be higher than they would otherwise be. The impact for each percentage point of actual Indiana cost increases over the HCFA/SNF index is estimated by industry sources to range from $8.3 M to $12.5 M in total Medicaid expenditures on an annual basis (or $3.15 M to $4.75 M in state costs). Conversely, if the actual Indiana costs rise slower than the HCFA/SNF index, the change in the methodology resulting from this bill would result in reduced Medicaid expenditures.

Based on an analysis by one industry source of the change in allowable nursing facility costs using 1998 and 2000 cost data, if these conditions were to continue, total Medicaid expenditures would be projected to increase by $12.9 M (or $4.9 M in state costs). Again, the amount and direction of the impact will depend on the relationship between changes in actual Indiana nursing facility costs and changes in projected costs. In comparison, Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates the impact at $10 M to $20 M as described above.

Consideration of Property Taxes and Liability Insurance: This bill removes property taxes from the capital rate component and reimburses these costs separately without a limit. The net additional expenditures of this provision are estimated to be $3.4 M, or about $1.3 M in state share. The bill also removes liability insurance from the administrative component and reimburses these costs separately without a limit. The net additional

expenditures of this provision are estimated to be $18.1 M, or approximately $6.9 M in state share.

There are currently four basic components in the case-mix reimbursement system: direct care, indirect care, administrative, and capital. Property taxes are an allowable cost within the capital component. The capital component is limited to a 95% minimum occupancy limitation, as well as by an 80% factor when computing the component's contribution to the total reimbursement rate. The bill would remove property taxes from the capital component and would create a new "property tax" component which would have no limiter. Liability insurance is an allowable cost within the administrative component which is limited to a 65% minimum occupancy limitation and a percentage of statewide cost medians. The bill would remove liability insurance from the administrative component to consider this expense separately with no limiters.

Wage Increase Pass Through for Direct Care Staff: The bill establishes a program for wage or benefit increases or bonus programs for registered nurses(RNs), licensed practical nurses(LPNs), and certified nursing aides(CNAs). Each facility that elects to create a plan that increases the wages or benefits or pays a bonus for direct care staff may participate in this program. The amount of expenses passed through to the Medicaid program are limited to an amount not to exceed $1 per hour for each RN, LPN, or CNA employed by the facility. The facility must submit a plan to the Office of Medicaid Policy and Planning at least 30 days before the implementation that describes how the facility will distribute the additional reimbursement to employees. This expenditure would be removed from the direct care component of the case-mix reimbursement system. The wage pass through is estimated to require $18.9 M, or about $7.2 M in state funds.

Repeal of Cost Containment Rules: The bill requires the Office to restore the profit add-on payment eliminated from the case-mix reimbursement system by administrative rule changes promulgated to cut costs. This provision is estimated to require $11.4 M annually in state funds.

The bill also requires the Office to restore the inflation adjustment that was eliminated from the case-mix reimbursement system by administrative rule changes promulgated to cut costs. This provision is estimated to require $11.2 M annually in state funds.

The bill also requires the Office to eliminate the 65% minimum occupancy standard put in place in the direct care, administrative, and indirect cost components of the case-mix reimbursement system. This provision would require $10.1 M in FY 2004 and $12.8 M in state funds since the Office plans to implement a 75% minimum occupancy standard in the upcoming biennium. Removal of the minimum occupancy standard would eliminate the cost savings associated with the initial implementation and prevent additional savings to be realized with a higher standard.

Explanation of State Revenues: *Nursing Facility License Fee:* This bill would authorize a $6 per patient day nursing facility license fee for all nursing home beds in the state. The bill creates the Eldercare Trust Fund and requires the proceeds of the license fee to be deposited in the Fund. The bill annually appropriates the proceeds of the licensing fee to pay for specified nursing facility services under the state Medicaid program. If the funds generated by the fee cannot be used to draw federal matching funds, they are to be returned to the facilities that contributed them. The license fee is initially estimated to generate a total of $92.8 M; including $2.9 M from non-Medicaid nursing facilities. Non-Medicaid nursing facilities would be unable to recover the additional $2.9 M expense related to the fee. The bill specifies that the fee collected is an allowable administrative cost component for Medicaid reimbursement purposes. The Medicaid-certified nursing facilities are estimated to recover approximately 68% of the cost of the fee through increased rates due to higher allowable costs. This would require total additional payments to the nursing facilities of $61.1

M. The state share would be $23.2M of the total. The net gain to the state Medicaid program from the $6 fee would be $69.5 M.

The bill specifies that the fee may not be assessed until the nursing facility rates have been adjusted and the new higher rates reflecting the increased administrative costs are being paid. The bill further specifies that the funds raised through the bed fee may not be used to supplant state funding levels as of January 1, 2003.

Intergovernmental Transfers: The bill requires that any additional federal financial participation (FFP) that the state receives through an intergovernmental transfer must be used to supplement Medicaid reimbursement for nursing facilities. The bill requires that the property tax and liability insurance expense pass through and requirement for current costs to be used in the rate calculation must be funded through this mechanism. The bill further requires that any remaining FFP must then be used to supplement Medicaid reimbursement for nursing homes in a uniform manner for all facilities. OMPP has emphasized that intergovernmental transfers need to have an incentive for the participants to participate. Currently, Marion County Health and Hospital Corporation's non-state governmental nursing facility, Lockfield Village, is the source of the intergovernmental transfer. This bill would eliminate the incentive for any money to come to the state to leverage funds since the bill requires all facilities to be treated uniformly. Additionally, one of the items to be included for funding, the property tax pass through, is not an expense to the county facility that is the source of the funds. OMPP reports that requiring uniform treatment will effectively eliminate the transfer.

See *Explanation of State Expenditures* regarding expenditure reimbursement in the Medicaid program.

Explanation of Local Expenditures:

Explanation of Local Revenues: Currently, there are six county-owned nursing facilities that would be subject to this change in the case-mix reimbursement methodology.

State Agencies Affected: Office of Medicaid Policy and Planning.

Local Agencies Affected: County-owned nursing facilities.

Information Sources: Keenan Buoy, Myers and Stauffer, (317) 846-9521, Amy Kruzan, Legislative Liaison for the Family and Social Services Administration, 317-232-1149. Indiana Health Care Association, Steve Albrecht.

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